

California Public Employees' Retirement System
Parallel Valuation and Certification of the Actuarial Valuation of the
Legislators' Retirement System as of June 30, 2007

Report Completed In Satisfaction of
Task 6 of Contract 2003-3236

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Table of Contents

Overview.....	1
Methodology	1
Review of Methods and Assumptions.....	2
Parallel Valuation	2
Reconciliation of Results	2
Table 1: Parallel Valuation Results	3

Overview

EFI Actuaries has completed a parallel valuation and certification of the Actuarial Valuation of the Legislators' Retirement System (LRS) as of June 30, 2007. As a result, we are able to certify that the liabilities computed in this Valuation are reasonably correct and were computed in accordance with generally accepted actuarial principles. Based on the assumptions and methods employed in the Valuation, the total liabilities independently computed by EFI closely matched those in the Valuation.

The supporting calculations are presented in more detail below. However, there is one issue that should be considered – beneficiary ages.

Methodology

Parallel valuation and certification involves three steps:

- Review of Methods and Assumptions

The actuarial assumptions and methods employed in the LRS Valuation were reviewed by EFI in order to establish whether they meet acceptable standards of actuarial practice.

- Independent Parallel Valuation

In order to verify the correctness of calculations in the LRS Valuation, EFI conducted an independent, parallel valuation using its own actuarial models. This independent valuation determines whether actuarial assumptions and methods are applied properly and yield the reported results.

In preparing our parallel valuations, we relied on member and asset data supplied by CalPERS staff. As is usual in actuarial valuations, this data was neither audited nor independently verified.

- Reconciliation of Results

In the event that the costs computed by EFI differ by more than 5% from those computed by CalPERS' staff, reconciliation is required. This reconciliation proceeds in three steps:

1. Establishing that the same member data has been used by EFI and by staff;
2. Researching methodological differences between the EFI and staff approaches to computing liabilities and costs; and
3. Comparing individual test life results to uncover subtle differences in approach that may result in material differences in liabilities and costs.

Review of Methods and Assumptions

The actuarial methods and assumptions used in the LRS Valuation are well within acceptable standards of actuarial practice.

Both CalPERS staff and EFI ignored the possible impact of benefit limitations under Internal Revenue Code Section 415 on liabilities and contribution rates. The effect of this Code section is almost certainly negligible.

Furthermore, neither CalPERS staff nor EFI included a liability for past legislators, not in CalPERS' records, who may be eligible to repay withdrawn member contributions and receive a retirement benefit. Such liabilities are expected to be incidental, and will be recognized and funded as they emerge.

Parallel Valuation

The LRS Valuation was performed by CalPERS staff using the Actuarial Valuation System (AVS). EFI validated the calculations by creating two *independent* actuarial models to develop the valuation results. The only data common to the models was the participant data; the EFI models were developed separately, without reference to the one used by staff for the Valuation.

Table 1 below shows the results of the calculations. We note the fully projected liabilities produced by the Valuation and by EFI are in close agreement in total.

Reconciliation of Results

The liabilities and cost computed by EFI were within 5% of those computed by CalPERS' staff. Accordingly, no further reconciliation was required.

Table 1: Parallel Valuation Results

	LRS Valuation	EFI Parallel Valuation	Difference
Fully Projected Liability for Active Members	\$ 10,270,193	\$ 10,784,654	5.0%
Liability for Vested Terminated Members	9,213,438	9,611,527	4.3%
Liability for Retired Members	<u>86,447,280</u>	<u>83,100,917</u>	-3.9%
Total Fully Projected Liability	\$ 105,930,911	\$ 103,497,098	-2.3%
Present Value of Member Contributions	0	0	0.0%
Actuarial Value of Assets	\$ 141,603,105	\$ 141,603,105	0.0%
Present Value of Employer Contributions	0	0	0.0%